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# **Market Study, Operational Review, and Cash Flow Analysis**

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## **Hayes Mansion Conference Center**

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### **San Jose, California**

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**Prepared by:**

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**Submitted to:**

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September 19, 2002

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Re: Hayes Mansion Conference Center  
San Jose, California  
HVS Reference: #2002040138

Dear Mr. Dearborn:

We herewith present our report summarizing our findings and recommendations regarding the Hayes Mansion Conference Center (HMCC). The City of San Jose retained HVS International on August 27, 2002 to perform market research, an operational review, and financial analysis in order to assess: a) the ability of the Hayes Mansion Conference Center to make prescribed rental payments to the City, and b) the lessee's need and ability to repay a working capital loan from the City. Pursuant to our engagement agreement, this report summarizes our findings regarding the following:

**Initial Scope**

1. Market Study
2. Operational Review
3. Financial Analysis

**Expanded Scope**

The scope of our initial engagement has been widened to also include:

4. An Assessment of the Tenant's Cash Flow Position
5. An Evaluation of Potential Short- and Long-Term Strategic Options for the City

This letter report sets forth our Four-Year Forecast of Net Income Available for Rental Payments under most likely, best, and worst case scenarios. Also presented is our Four-Year Application of Funds forecast for each of the three scenarios, which sets forth the projected cash flow from operations available

for lease payments and other obligations, the payment of required and discretionary capital expenses, and the cash flow surplus or shortfall on an annual basis.

We conclude our report with recommendations regarding the city's short- and long-term strategic options at this juncture given the lessee's anticipated operating deficits.

We hereby certify that we have no undisclosed interest in the property, and our employment and compensation are not contingent upon our findings and valuation. This study is subject to the comments made throughout this report and to all assumptions and limiting conditions set forth herein.

Very truly yours,  
HVS INTERNATIONAL  
Division of M&R Valuation Services, Inc.

Harry Madhoo  
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# Report

## 1. Market Study and Overview

The third-phase expansion of the Hayes Mansion Conference Center was conceived during a very profitable time for the hotel/conference center industry, and most particularly for hotels located in Silicon Valley. Data retained in our files indicated that the Silicon Valley hotel market experienced a period of declining performance from 1990 to 1993. However, from 1995 to 2000, the market underwent through a period of unprecedented growth; average rates experienced successive periods of double-digit growth.

The hotel/conference center industry is cyclical in nature, in part because lodging demand rises and falls with economic growth and decline. This cyclical nature is compounded by the long period of time between when a hotel project is determined feasible and when it opens its doors. The Hayes Mansion Conference Center is facing a financial situation not uncommon for significant hotel projects located in major U.S. markets that have opened within the past year. Often the most ambitious projects only become feasible toward the end of a development cycle, and thus face the risk of a market downturn upon opening.

After several years of relatively stable performance during the early 1990s, hotel performance in Silicon Valley took off in 1995. Benefiting from a prolonged period of limited new hotel development, followed by the rapid rise in commercial travel generated by the mid- to late 1990s technology and Internet boom, Silicon Valley hotels were able to achieve extraordinarily high occupancy levels and increases in average rates. The large gains in hotel revenue led to unprecedented operating profits, which in turn resulted in hotel values exceeding construction costs. This positive feasibility equation led many hotel owners and developers to consider the expansion of existing hotels and the construction of new hotels. While many markets throughout the U.S. had already gone through their hotel construction cycle in the mid- to late 1990s, California was one of the last markets in which hotel development became feasible due to high land and construction costs. Average rates and occupancies had to rise to very high levels before new

hotel development became feasible. After many years of a positive supply and demand imbalance, and double-digit gains in RevPAR, hotel developers from around the country were attracted to the market despite the high cost of land and construction. The superlative profitability of hotels in the San Francisco area resulted in a wave of new construction that just started entering the market within the past year.

The Hayes Mansion Conference Center expansion was conceived late in the development cycle, but at a point when even the brightest and best stock market analysts were hypnotized by the fever of the new tech and Internet-based economy. The dot-com bubble is now a historical event, but the aftermath of such a significant economic boom turned to bust will be with local hotel owners for some time to come. The tragic events of September 11<sup>th</sup> further exacerbated an already bad situation by reducing travel from all sources. Group meetings, the lifeblood of conference facilities such as the subject, experienced a severe downturn as meetings were canceled or downsized and pre-bookings of future events came to a virtual standstill. Hotels and conference centers require a continuous flow of business to remain in a positive cash flow position. When revenue declines significantly, cash flow is quickly diminished due to the large fixed component of a hotel conference center's operating expenses. These lost profits cannot be recouped, and shortfalls will likely be experienced by any major new hotel project that has been financed within the past few years. Properties facing a cash flow shortfall must receive cash infusions by the owner and, if possible, some forbearance by the lender in the form of reduced interest rates and/or debt service deferrals. Property owners have been coming out-of-pocket to cover debt service shortfalls and workouts with lenders have been quietly taking place for numerous hotels throughout the U.S. over the past 10 months. The reason that we have not seen many foreclosures of major hotel assets in the U.S. to date is because lenders were much more conservative in their underwriting of hotel development during this most recent development cycle. A well-capitalized developer/owner was generally a prerequisite for the financing of a major new hotel development, and loan-to-value ratios were kept at low levels.

Occupancy and average rate data for San Jose indicate that the downturn in lodging demand has been significant. The decline in occupancy is notable, but even more dramatic is the decline in average rate, which has led to an across-the-board devaluation of hotel assets. In order to assess the subject property's performance relative to that of the market, HVS International

ordered two Trend Reports from Smith Travel Research (STR) setting forth supply, demand, occupancy, average rate data for the last five years.

**Tables 1A. and 1B.** set forth composite supply and demand statistics for selected conference centers and selected hotels and conference centers in the U.S. and Northern California, respectively. Hayes management representatives indicated that the properties represented in each composite (listed by name below the chart on each page) compete to some extent with the subject in the local, regional and national conference center markets. A comparison between these statistics and those presented previously for San Jose hotels reveals that the conference center market has held up relatively well during this downturn. The performance of U.S. conference centers did not rise as dramatically as those located in Northern California, so they had less to lose during the current retrenchment in demand. **Table 1C.** sets forth the Hayes Mansion Conference Center's operating statistics for the past five years and year-to-date through July 2002.

As is evident, the subject experienced a much more significant downturn in operations than the comparable properties. The subject's 28.9% RevPAR decline in 2001 compares with 18% and 15.3% RevPAR declines for the northern California and U.S. competitive sets, respectively. Year-to-date 2002, the subject's RevPAR declined by 33.8% compared to 21.1% and 9.3%, respectively, for the Northern California and U.S. competitive sets. Clearly, disruption caused by construction of the subject's expansion contributed partly to the above-average decline this year, but the subject's heavy reliance upon companies in the technology sector exacerbated the property's poor performance in 2001.

During the course of our market study, we interviewed management of competitive facilities and researched economic and business trends to assess the prognosis for hotel and conference center demand over the foreseeable future. Our findings are summarized in the following:

- a) Office vacancies increased from 14.4% in 2001 to 17.3% by the end of the second quarter of 2002, with negative net absorption of  $\pm 5.5$  million square feet recorded in 2001. Similar trends are noted in the Santa Clara County research and development market. CB Richard Ellis concludes that the steady trickle of sublease space into the market indicates that the office market has not yet reached the bottom.



- b) The San Jose McEnery Convention Center experienced a decline of roundly 24% and 48% in the number of events and attendance, respectively, during fiscal year 2001/02, compared to events and attendance data for the prior fiscal year. An official at the center indicated that the outlook for 2003 is one of cautious optimism.
- c) The demise of Internet-related businesses, the economic retrenchment of well-established high-tech manufacturing companies, and decreased compression from (downtown) San Jose's McEnery Convention Center and the Santa Clara Convention Center, have resulted in a buyer's market in terms of hotel demand in the greater San Jose market. Area managers also indicated that businesses are increasingly cost conscious; meeting planners are more price sensitive and generally ask for quotes from several facilities before booking events. The marketplace is currently very buyer-driven.
- d) Further, the events of September 11<sup>th</sup> and lingering effects have negatively impacted demand for hotel room nights. Area managers interviewed indicated that 2002 has been a very difficult year for hotel operators. Occupancy and average rates have declined, erasing prior gains.
- e) In addition to a decline in commercial demand for hotels, local area managers also indicated that meeting and group business, which is generally commercial in nature, has suffered similar declines. In particular, booking windows, or the time when an event is booked to the actual event date, have decreased substantially, thus adding further uncertainty to the timing of an upswing in demand. The decrease in the booking windows is a trend that has been observed in several other hotel markets; an official from the San Jose Convention Center confirmed our observation.
- f) New hotel development in the Silicon Valley area is likely to put further downward pressure on occupancy and rates, at least in the short term. The opening of the 500+ -room Marriott, scheduled for opening in early 2003 in downtown San Jose, is expected to intensify competition in the HMCC's local market area, including the meeting and group segment. According to representatives of the San Jose Convention and Visitors Bureau, several new hotel projects have been approved in the Silicon Valley area; however, in the current economic climate, it is likely that very few, if any, will be financed. While not directly competitive with the

HMCC, some properties, especially those with adequate meeting and banquet space, may attract meeting and group business away from the HMCC.

- g) Local area hotel operators are cautiously optimistic about the prospects for 2003. While local hotel managers expect occupancy to show a moderate improvement in 2003, average rate is expected to remain flat, without any inflationary growth.

The preceding economic information indicates that Santa Clara County (and in general the Bay Area) has been severely impacted by the technology/dot-com fallout due to the area's economic dependence on these industries, the national economic slowdown, and the events of September 11th. Local companies have laid off employees, unemployment levels have increased, and office vacancy rates have reached all-time highs. The *San Jose Mercury News* reported that Silicon's Valley largest 150 public companies lost \$89.8 billion in market capitalization in 2001, exceeding their profits for the prior eight years combined.

Despite the current downturn, the economies of Santa Clara County, the Bay Area, and the nation are expected to recover. We anticipate a return to strong occupancy levels, pending global, regional, and national economic recoveries, and increased demand for high-tech goods and services. Experts have varying opinions as to the timing of the recovery; however, most predict a recovery in the tech sector in 2005. Therefore, we can anticipate gradual, moderate recovery until that time, when investors can expect a cyclical upturn in hotel performance. HVS International has assumed that economic recovery will span a period of about four years. In conclusion, the general prognosis for the market is a gradual recovery in lodging and conference center demand over the next four years. No significant recovery is expected in 2003, while things are expected to show more promise in 2004. Clearly, a recovery in the tech sector is the single-most important factor for local and regional facilities.

## 2. Operational Review

As an element of our engagement we

- a) reviewed and analyzed the asset's historical financial performance;
- b) conducted personal interviews with the hotel's general manager and the management company's chief financial officer;

- c) conducted a telephonic interview with the hotel's director of sales and marketing;
- d) evaluated summaries of projected future business currently on the books;
- e) reviewed and discussed the asset's management structure and staffing guidelines;
- f) reviewed the sales and marketing business plan; and
- g) toured the existing facilities as well as the expansion currently under construction.

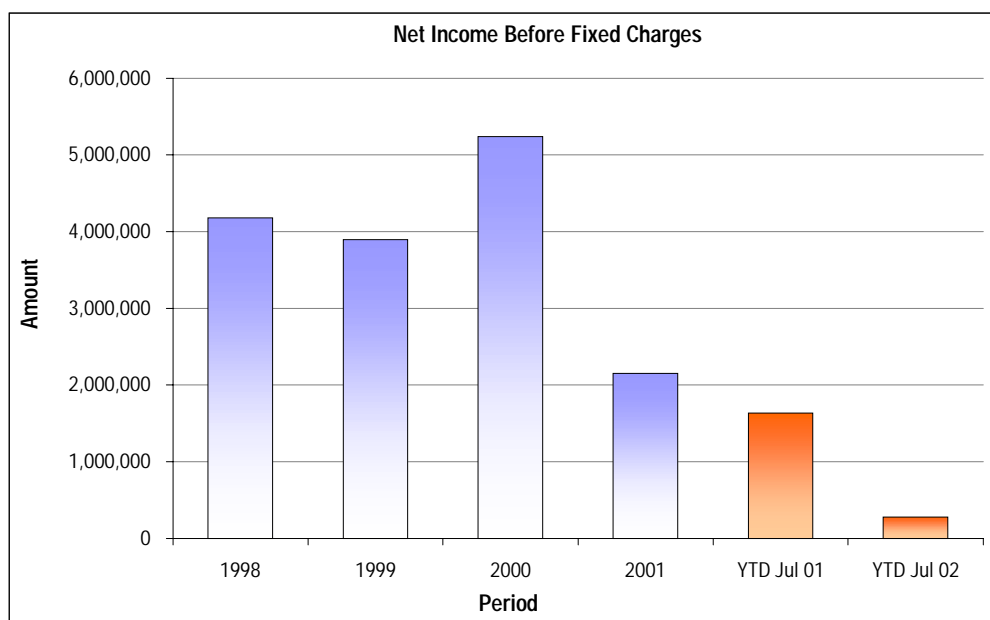
Due to the nature of our engagement, our evaluation is "big-picture" in nature. In situations such as this, our industry experience suggests that a "big-picture" evaluation provides, in most cases, a more accurate perspective.

The summary of the historical financial performance of the subject is contained in (**Tables 2A., 2B., and 2C.**) Our review of the asset's historical financial performance indicates that management was effective in controlling operating costs during periods of relative high revenue (1998-2000), but as the economic conditions radically changed in 2001, thereby negatively impacting the asset's ability to generate top-line revenue, income before fixed charges fell precipitously. The asset generated net income before fixed charges as follows: 1998 - ±\$4.2 million; 1999 - ±\$3.9 million; 2000 - ±\$5.2 million; 2001- ±\$2.2 million; year-to-date through July 2002 - ±\$280,000. As these figures illustrate, as economic conditions rapidly declined in 2001, the asset's net operating income before fixed charges declined by more than ±\$3 million in fiscal year 2001, from 2000's fiscal-year results. This negative trending has continued through the first seven months of 2002. The asset generated ±\$280,000 in income before fixed charges for the first seven months of 2002 compared with that ±\$1.6 million for the same seven-month period of 2001. These results indicate that the nadir of demand for the present economic cycle may have not yet been reached.

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**Historical Trends in Net Income before Fixed Charges**


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Given the severity and ongoing nature of the top-line revenue problem, management is currently faced with the challenge of trying to increase income before fixed charges in an extremely difficult operating environment. In discussions with management, we were told that payroll has been cut to the lowest possible levels, while attempting to maintain high-quality service levels at the HMCC. This is one of the most difficult challenges facing management in the current economic environment: aggressively controlling payroll costs while assuring that the HMCC continues to provide a high level of guest service and quality that the clientele expects to receive. Based on our discussions with the general manager and our observations of the present operations, we believe that the necessary staff reductions have occurred.

In conclusion, the HMCC faces an extremely challenging operating environment over the near to mid-term.

3. Projections of Net  
Income Available  
for Rent

Based upon our market study, review of the subject property's operating history, as well as our discussions with on-site management, we have prepared projections of net income available for rent and other debt service under best, worst and most likely scenarios (**Tables 3A., 3B., and 3C.**) The

tables set forth the subject's 2001 operating performance and HVS International's projection of how we believe HMCC will end the year 2002. Projected net income available for rent and other financial expenses is then set forth for calendar years 2003 through 2005, or what we have identified as a stabilized level of operation.

These projections reflect gradual to moderate rises in occupancy and average rate. Note that no dramatic rebound has been forecast over the next four years as we did not believe there was an apparent basis for such a prediction at this time. Once occupancy levels rebound, giving operators the confidence to raise average rates at above-inflationary rates, as was the case in the latter half of the 1990s, a marked recovery in average rates and overall profitability could occur. However, all indications at this time point to a protracted period of recovery.

In reviewing the financial projections, please take note of the following assumptions, approaches, and definitions:

- a) Due to the nature of our engagement, our evaluation is "big-picture" in nature. In situations such as this, our industry experience suggests that a "big-picture" evaluation provides, in most cases, a more accurate perspective. Thus, the HVS International projections of net income available for rental payments should not be viewed as an operating budget.
- b) Our projection of rooms revenue was based on a preliminary evaluation of historical financial information that was provided by the Tenant, an evaluation of the property's sales and marketing plan, an assessment of current/future bookings and booking pace, an inspection of the facilities, interviews of with key management staff, our knowledge of market conditions in the region, an assessment of the subject's demand generators, our assessment of the current and future economic conditions, and general operating statistics of lodging facilities.
- a) In addition, HVS International has utilized a fixed-variable model to project each line of revenue and expense (except for room's revenue, which was based on our assessment of occupancy and average rate). The fixed-variable model was developed by HVS International based on survey data on the financial performance of hotels and our understanding of hotel operations. The model provides for fluctuations in operating profitability with variances in departmental/total revenue.

- b) Our projection of operating expenses is based on a “big-picture” approach that analyzes the reasonableness of operating expenses as a percentage of departmental/total revenue, on a per-available-room (PAR) and/or on a per-occupied-room (POR) basis, a current industry practice.
- c) The quality of a conference center’s on-site management has a direct effect on a property's economic viability, performance, and value. The financial forecasts presented in this analysis assume management by Network Conference Company, the current management company. Any departure from this assumption may have a significant impact on the projected operating results and estimates.
- d) According to HMCC representatives, Phase III will be operational by mid-November. However, for the sake of simplicity, our projections assume that Phase III will open on January 1, 2003.
- e) Additionally, we have assumed that, when opened in January 2003, Phase III of the new construction will be staffed according to the level of business booked at any point in time.
- f) Our forecasts reflect that HMCC’s management is not entitled to the second half of the management fee (2.5% of gross revenue) since the cash flows are not adequate to cover the outlays in the order spelled out in the Amended Lease Agreement.
- g) We have not deducted any reserve to account for future capital expenditures necessary to maintain the facility in a competitive condition. According to the Landlord, the grounds rent payable by the Tenant to the City is accumulated in a fund that may be utilized for this purpose, if and when necessary.
- h) A detailed **Projection of Net Income Available for Rent (Tables 3A., 3B., and 3C.)** refers to the projection of net income generated by the operations after covering all legitimate operating expenses.
- i) **Application of Funds (Tables 4A., 4B., and 4C.)** shows how Net Income Available for Rent (from above) is utilized to cover rent payments on the bond issues, outstanding loans, financing expenses, and other non-operating expenditures. Note that the order and manner in which the Net Income Available for Rent is utilized is governed by provisions of the Amended Lease Agreement between the City and HMCC.

- j) Our projections are presented under three scenarios: Most Likely, Best Case, and Worst Case.
  - i. Under the **Most Likely Scenario**, we estimate that the property can attain a stabilized occupancy level of 50% in 2005, which represents an increase of 73% in occupied room nights, over the level attained in 2001. Our assumptions of growth in average rates are as follows: -9.5% in 2002, 2% in 2003, and 3% in 2004 and 2005.
  - ii. Under the **Best Case Scenario**, we estimate that the property can attain a stabilized occupancy level of 55% in 2005, which represents an increase of 90% in occupied room nights, over the level attained in 2001. Our assumptions of growth in average rates are as follows: -9.5% in 2002, 2% in 2003, 4% in 2004, and 5% in 2005.
  - iii. Under the **Worst Case Scenario**, we estimate that the property can attain a stabilized occupancy level of 45% in 2005, which represents an increase of 55% in occupied room nights, over the level attained in 2001. Our assumptions of growth in average rates are as follows: -9.5% in 2002, 2% in 2003, 2% in 2004, and 3% in 2005.

#### 4. Assessment of Tenant's Cash Flow Position

Based upon our forecasts of net income available for rent previously presented, our review of documents provided to us by the City, as well as our discussions with the City and the Tenant, we have prepared a four-year application of funds forecasts for HMCC. The forecasts reflect the best, worst, and most likely scenarios in **Tables 4A, 4B., and 4C.,** respectively. The cash outflows were categorized as required payments, such as rent, and discretionary payments, such as interest on deferred rent. The following points are pertinent.

- a) Between 2001 and mid-2002, Hayes Mansion completely exhausted \$3.2 million in funds available for Phase III to cover past operating and non-operating expenses. The \$3.2-million amount is made of a \$2-million loan from Comerica Bank and a \$1.2-million loan from the construction company (Devcon) for Phase III. While the construction agreement for Phase III allows such an application of the loan proceeds, it is important to note that, had Phase III not been initiated, the Tenant would not have had access to these funds. As such, the cash deficit situation would have occurred earlier.

- b) The Application of Funds projections list all legitimate outlays to the operations. However, in a situation where operating revenues are not sufficient to meet all cash outlays, not every payment should be made. For instance, the **Second Half of Management Fee** payable to the management company and the **12.0% Preferred Return** on Phase II payable to the partners must be deferred to the extent that cash is not available (per the Amended Lease Agreement). Property management has indicated that payment of the Second Half of Management Fee and the Preferred Return have been stopped since August 2002 and August 2001, respectively. Our projections assume that these payments will be deferred indefinitely. In a cash shortage position, it is not appropriate for the City to lend the Tenant funds in order that the second half of the management fee be paid to the Management Company and preferred return paid to the partners.
- c) Payments listed under the "Required Payments" heading are considered essential to meet important obligations. **Phase I and III Base Rent** payments must be made to prevent default by the City on its obligations to bondholders. We have assumed that these payments cannot be deferred. Note that **Phase I Notes Payable to the City - \$4 million** is also part of the City's Phase I bond obligations.
- d) Note that the following estimates of rent payments, as provided to us by the City and HMCC, were used in our analysis:
- Financial Year 2002-03 -- \$63,500 per month
  - Financial Year 2003-04 -- \$140,500 per month
  - Financial Year 2004-05 -- \$265,800 per month

These payments increase due to the end of the capitalized interest period on the Series 2001B and 2001D bonds and higher interest rate assumptions.

- e) The **Prior-Year Property Tax** is a possessory interest tax payable by the Tenant from 1998 to 2002, when the last payment is due. We have assumed that any unpaid portion must be paid by the Tenant and cannot be deferred. In the event that the City agrees to defer/forego this payment, the extent of our projected cash shortfall will decrease accordingly.



- f) The **\$2-Million Comerica Bank Loan** pertains to a loan from Comerica to be utilized on Phase III. As mentioned earlier, HMCC has fully exhausted the \$2-million loan to cover operating and non-operating expenses from 2001 and mid-2002. Since the payment of base rents to the City is subordinate to the interest and principal repayment on the Comerica loan, we have projected the cash outlays as required payments. In the event that HMCC manages to negotiate deferral of interest and or principal payment on this loan, the extent of our projected cash shortfall will decrease accordingly.
- g) The **Interest on \$1.2-Million Devcon Loan** pertains to interest paid on a \$1.2-million loan from Devcon, the Phase III construction company, to the general partnership. The Tenant has represented that the \$1.2-million principal will be paid out of funds from the general partnership rather than from operating income of the HMCC.
- h) **Phase III FFE Purchase** pertains to cash requirements for the purchase of furniture, fixtures, and equipment (FFE) for the new building (Phase III). We understand that HMCC is currently seeking to lease the required FFE. However, for the purpose of our analysis, we have assumed that all FFE purchase is required and will be made upfront. HVS International is of the opinion that opening the 6,000-square foot ballroom and meeting space is an important part of HMCC's strategy for 2003, especially for attracting larger corporate and social events. We have assumed that purchase of the FFE cannot be deferred. In the event that it becomes necessary to delay purchase of the FFE, our projected cash shortfall will change.
- i) **Additional Supplies** pertain to cash requirements to purchase additional inventory such as linen, towels, room's amenities, cutlery, and dishware, among others. We have projected this cash outlay as a required payment on the assumption that Phase III will be opened on January 2003. As with the FFE Purchase, HVS International is of the opinion that purchase of this inventory might prudently be deferred, at least partially (pending further analysis), until the level of demand warrants the opening of Phase III guestrooms. In the event that purchase of the additional supplies is deferred, our projected cash shortfall will decrease accordingly.
- j) **Working Capital** pertains to cash requirements to cover the difference in accounts payable and accounts receivables as a result of fluctuations in

the timing of operating receipts and operating expenses. We have projected this payment as required item.

- k) The **Interest on Deferred Percentage Rent** pertains to interest payments on percentage rent for the period from 1999 through 2001 that was deferred till 2014 to 2017. We have assumed this payment is a required outflow. In the event that the City agrees to defer/forego this payment, the extent of our projected cash shortfall will decrease accordingly.
- l) The **Grounds Rent** payable to the City is listed as a discretionary payment. The extent of our projected cash shortfall depends on whether the City is willing to defer/forego this payment. Our projections assume that the Tenant is obligated to make the Grounds Payment to the City. In the event that the City agrees to defer/forego this payment, the extent of our projected cash shortfall will decrease accordingly.
- m) **Percentage Rent** accrues only if certain revenue-attainment criteria are met (as stated in the Amended Lease Agreement). However, payment of percentage rent is subordinate to all items in the list. We have assumed that any percentage rent, if earned, can be deferred indefinitely until the property's cash position improves. In the event that the City cannot defer/forego this payment, it will become payable or accrued in the year when revenue-attainment criteria are met.

## 5. Summary of Cash Positions

The following table summarizes our projected cash positions for HMCC.

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**Tenant's Projected Cash Positions Under Three HVS-Developed Scenarios**


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	2002*	2003	2004	2005
<b>Most Likely Scenario</b>				
Cash Deficit - By Year	(\$2,100,000)	(\$1,900,000)	(\$1,100,000)	(\$740,000)
- Cumulative	(2,100,000)	(4,100,000)	(5,200,000)	(5,900,000)
<b>Best Case Scenario</b>				
Cash Deficit - By Year	(\$1,800,000)	(\$1,000,000)	(\$100,000)	\$500,000 **
- Cumulative	(1,800,000)	(2,800,000)	(2,900,000)	(2,400,000)
<b>Worst Case Scenario</b>				
Cash Deficit - By Year	(\$2,300,000)	(\$2,600,000)	(\$2,500,000)	(\$1,800,000)
- Cumulative	(2,300,000)	(4,900,000)	(7,400,000)	(9,200,000)

\* From August 2002 to Dec 2002

\*\* Before payment of second half of management fee and preferred return

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As mentioned earlier, it is important to note that our projections of cash position depend very much on what payments the City, Comerica Bank, and HMCC can negotiate or defer/forego, and if so, to what extent (amount).

We have been asked to project the cash requirement of HMCC on a fiscal year basis. Based on our calculations, we project the following:

- a) Under the Most Likely Scenario, a cash shortfall of roundly \$3.1 million until June 2003;
- b) Under the Best Case Scenario, a cash shortfall of roundly \$2.3 million until June 2003; and
- c) Under the Worst Case Scenario, a cash shortfall of roundly \$3.6 million until June 2003.

## 6. Evaluation of Potential Short and Long Term Options

Based on our evaluation of the current operations and our projections we have concluded that:

- a) The cash crisis that is currently being experienced is not a short-term problem and is a problem that the asset will face for the foreseeable future.
- b) The asset is undercapitalized at the present time and the Tenant has indicated that all sources of potential capital have been exhausted.
- c) Given the precariousness of the present financial situation, any cash infusion or loan that the Landlord may elect to make comes with a great deal of risk.

In cash-crisis situations similar to the situation being analyzed in this exercise, the tenant or borrower is usually required to infuse additional equity or operating funds to shore up the asset's operations, not the Landlord or the lender. But, we have been told the Tenant does not have the financial capability or resources to provide these funds. An infusion of cash by the City does not come without risk. If the Tenant is unsuccessful in selling its leasehold interest or if an economic recovery does not occur in the short term, the Tenant may not be in a position to repay these funds.

The City is in a position of strength, in that it holds the Landlord position. If funds are provided to the Tenant to assist the operation through the current cash crisis, the City should provide these funds with the condition that the Landlord or its representative(s) oversee and monitor the sources and uses of all cash. Further, the Landlord or its representative(s) should be permitted to regularly visit the Hayes Mansion Conference Center to closely monitor and evaluate the Management Company's sales and marketing and operational efforts to assure that all actions are being taken to maximize short-term cash flow.

In addition to monitoring all sources and uses of cash and all operational and sales and marketing activities, the Landlord or its representative(s) should oversee and closely monitor the Tenant's actions to identify a purchaser of its leasehold interest. Finally, the City should analyze the possibility of stepping into the shoes of the Tenant, should the Tenant not be successful in its efforts to identify a replacement Tenant by an agreed upon timeframe.

## 7. Conclusion

In conclusion, referring back to the objectives of our engagement set forth in the Letter of Transmittal to this report, which were to assess: a) the ability of the Hayes Mansion Conference Center to make prescribed rental payments to the City, and b) the lessee's need and ability to repay a working capital loan from the City, we conclude that:

- a) The Hayes Mansion Conference Center faces an extremely challenging operating environment over the near to mid term;
- b) The Hayes Mansion Conference Center does not have the ability to make prescribed rental payments to the City over the near to mid term;
- c) The Hayes Mansion Conference Center is in need of capital infusion and/or a loan. However, we are of the opinion that, the Hayes Mansion Conference Center will not be in a position to repay a working capital loan in the near to mid term, unless possibly from the proceeds of a successful sale of the Tenant's leasehold interest in the Hayes Mansion Conference Center; and
- d) It would not be prudent to abruptly close the facility without aggressively exploring alternatives in the short term. We propose that, if the recommendations set forth in this report are implemented, the operations be sustained at least through June 30, 2003, during which time the market for this property may improve and, more importantly, all strategic options will be explored by the City to protect the City's interest in the asset.

8. Summary of  
Assumptions and  
Limiting Conditions

- a) This report is to be used in whole and not in part.
- b) All information, financial operating statements, estimates, and opinions obtained from parties not employed by HVS International are assumed to be true and correct. We can assume no liability resulting from misinformation.
- c) If the reader is making a fiduciary or individual investment decision and has any questions concerning the material presented in this report, it is recommended that the reader contact us.
- d) We take no responsibility for any events or circumstances that take place subsequent to either the date of this report.
- e) The quality of a conference center's on-site management has a direct effect on a property's economic viability, performance, and value. The financial forecasts presented in this analysis assume management by Network Conference Company, the current management company. Any departure from this assumption may have a significant impact on the projected operating results and estimates.
- f) The estimated operating results presented in this report are based on an evaluation of the overall economy, and neither take into account nor make provision for the effect of any sharp rise or decline in local or national economic conditions. To the extent that wages and other operating expenses may advance during the economic life of the property, we expect that the prices of rooms, food, beverages, and services will be adjusted to at least offset those advances. We do not warrant that the estimates will be attained, but they have been prepared on the basis of information obtained during the course of this study and are intended to reflect the expectations of a typical hotel buyer.
- g) This analysis assumes continuation of all Internal Revenue Service tax code provisions as stated or interpreted on either the date of of our field inspection.
- h) Many of the figures presented in this report were generated using sophisticated computer models that make calculations based on numbers carried out to three or more decimal places. In the interest of simplicity, most numbers have been rounded to the nearest tenth of a percent. Thus, these figures may be subject to small rounding errors.
- i) Although this analysis employs various mathematical calculations to provide estimates, the final estimate is subjective and may be influenced by our experience and other factors not specifically set forth in this report.

- j) Our detailed projections have been prepared without the benefit of an in-depth operational review. Revenue and expense forecasts were based upon the conference center's historical operating performance, the lessee's 2003 operating budget, industry averages, and our best estimate of what expenses would be incurred at a particular revenue volume. An in-depth operational review will be required to ascertain the exact level of operating expenses required for the conference center to build up to a stabilized performance level. Thus, the HVS International projections of net income available for rental payments should not be viewed as an operating budget.

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# Addenda

Table 1A. – Smith Travel Data for Selected U.S. Conference Centers

Table 1B. – Smith Travel Data for Selected Conference Centers and Hotels in N. California

Table 1C. – Comparative Hayes Mansion Operating Statistics

Table 2A. – Historical Financial Statements for 2001 and 2000

Table 2B. – Historical Financial Statements for 1999 and 1998

Table 2C. – Historical Financial Statements for YTD July 2002 and July 2001

Table 3A. – Projection of Net Income Available for Rent Under the Most Likely Scenario

Table 3B. – Projection of Net Income Available for Rent Under the Best Case Scenario

Table 3C. – Projection of Net Income Available for Rent Under the Worst Case Scenario

Table 4A. – Projection of Application of Funds Under the Most Likely Scenario

Table 4B. – Projection of Application of Funds Under the Best Case Scenario

Table 4C. – Projection of Application of Funds Under the Worst Case Scenario



Table 1A. Smith Travel Data for Selected U.S. Conference Centers

Year	Occupied Room Nights	Change	Available Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
1996	431,266	---	716,860	---	60.2 %	\$110.95	---	\$66.75	---
1997	436,461	1.2 %	716,860	0.0 %	60.9	126.00	13.6 %	76.71	14.9 %
1998	448,063	2.7	719,610	0.4	62.3	141.29	12.1	87.97	14.7
1999	425,506	(5.0)	720,510	0.1	59.1	152.00	7.6	89.77	2.0
2000	426,867	0.3	720,510	0.0	59.2	156.93	3.2	92.97	3.6
2001	365,253	(14.4)	720,510	0.0	50.7	155.42	(1.0)	78.79	(15.3)
Average Annual									
Compounded Change		(3.3) %		0.1 %			7.0 %		3.4 %
Year-to-Date Through July									
2001	227,539		418,488		54.4 %	\$158.15		\$85.99	
2002	220,194	(3.2) %	418,488	0.0 %	52.6	148.27	(6.3) %	78.01	(9.3) %

Source: Smith Travel Research

**Properties Included:**

Oakbrook Hills Resort, Oakbrook, IL  
Doral Forrestal, Princeton, NJ  
Heritage Inn & Conference Center, Southbury, CT  
Harrison Conference Center, Glen Cove, NY  
Del Lago Resort & Conference Center, Montgomery TX  
Hamilton Park, Florham Park, NJ  
Oak Ridge Conference Center, Chaska, MN  
Dolce IBM Palissades Conf. Ctr, Palisades, NY

Table 1B. Smith Travel Data for Selected Conference Centers and Hotels in N. California

Year	Occupied Room Nights	Change	Available Room Nights	Change	Occupancy	Average Rate	Change	RevPAR	Change
1996	497,871	---	687,599	---	72.4 %	\$131.90	---	\$95.50	---
1997	504,594	1.4 %	696,055	1.2 %	72.5	147.99	12.2 %	107.28	12.3 %
1998	496,362	(1.6)	696,055	0.0	71.3	162.22	9.6	115.68	7.8
1999	489,277	(1.4)	696,055	0.0	70.3	176.68	8.9	124.19	7.4
2000	518,692	6.0	696,055	0.0	74.5	198.70	12.5	148.07	19.2
2001	463,142	(10.7)	771,137	10.8	60.1	202.25	1.8	121.47	(18.0)
Average Annual									
Compounded Change		(1.4) %		2.3 %			8.9 %		4.9 %
Year-to-Date Through July									
2001	284,336		439,433		64.7 %	\$210.73		\$136.35	
2002	284,920	0.2 %	501,427	14.1 %	56.8	189.32	(10.2) %	107.58	(21.1) %

Source: Smith Travel Research

**Properties Included:**

Hyatt St Claire, San Jose  
Fairmont San Jose  
Hilton San Jose  
Chaminade  
Seascape Resort  
Ritz Carlton Half Moon Bay (April 2001)  
Resort @ Squaw creek

Table 1C. Comparative Hayes Mansion Operating Statistics

Year	U.S. Conference Centers			N. California Hotels and Conf. Centers			Hayes Mansion Conference Center		
	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR	Occupancy	Average Rate	RevPAR
1998	62.3 %	\$141.29	\$87.97	71.3 %	\$162.22	\$115.68	52.6 %	\$160.70	\$84.53
1999	59.1	152.00	89.77	70.3	176.68	124.19	52.6	163.70	86.11
2000	59.2	156.93	92.97	74.5	198.70	148.07	62.8	159.39	100.10
2001	50.7	155.42	78.79	60.1	202.25	121.47	45.9	154.99	71.14
Average Annual									
Compounded Change %		3.2 %	(3.6) %	7.6 %		1.6 %	(1.2) %		(5.6) %
Year-to-Date Through July									
2001	54.4 %	\$158.15	\$85.99	64.7 %	\$210.73	\$136.35	49.8 %	\$164.09	\$81.72
2002	52.6	148.27	78.01	56.8	189.32	107.58	38.6	140.44	54.21

Source: Smith Travel Research and Hayes Mansion Conference Center

Table 2A. Historical Financial Statements for 2001 and 2000 (Projections in Thousands, Except Ratios)

	2001				2000			
Number of Rooms:	135				135			
Occupied Rooms:	22,630				30,949			
Days Open:	365				365			
Occupancy:	45.9%	Percentage	Amount per	Amount per	62.8%	Percentage	Amount per	Amount per
Average Rate:	\$154.99	of Revenue	Available	Occupied	\$159.39	of Revenue	Available	Occupied
			Room	Room			Room	Room
<b>REVENUE</b>								
Rooms	\$3,507	29.1 %	\$25,981	\$154.99	\$4,933	30.4 %	\$36,541	\$159.39
Food	4,682	38.9	34,678	206.87	6,107	37.7	45,233	197.31
Beverage	678	5.6	5,022	29.96	1,033	6.4	7,650	33.37
Conference Services	1,588	13.2	11,763	70.17	2,436	15.0	18,044	78.71
Rooms Cancellation Rev.	1,301	10.8	9,636	57.49	1,293	8.0	9,581	41.79
Other Income	279	2.3	2,067	12.33	413	2.5	3,059	13.34
Total	12,035	100.0	89,147	531.81	16,215	100.0	120,110	523.92
<b>DEPARTMENTAL EXPENSES</b>								
Rooms	1,245	35.5	9,222	55.02	1,302	26.4	9,644	42.07
Food & Beverage	3,803	71.0	28,170	168.05	4,299	60.2	31,844	138.91
Conference Services	647	40.7	4,793	28.59	645	26.5	4,778	20.84
Other Expenses	194	69.5	1,437	8.57	187	45.3	1,385	6.04
Total	5,889	48.9	43,622	260.23	6,433	39.7	47,652	207.86
<b>DEPARTMENTAL INCOME</b>	6,146	51.1	45,524	271.58	9,782	60.3	72,458	316.06
<b>UNDISTRIBUTED OPERATING EXPENSES</b>								
Administrative & General	1,338	11.1	9,911	59.13	1,297	8.0	9,607	41.90
Marketing	1,009	8.4	7,474	44.59	1,490	9.2	11,037	48.14
Property Operations & Maintenance	619	5.1	4,585	27.35	555	3.4	4,111	17.93
Energy	426	3.5	3,156	18.82	387	2.4	2,867	12.50
Total	3,392	28.2	25,126	149.89	3,729	23.0	27,621	120.49
<b>HOUSE PROFIT</b>	2,754	22.9	20,398	121.69	6,053	37.3	44,837	195.58
Management Fee	601	5.0	4,451	26.55	812	5.0	6,013	26.23
<b>INCOME BEFORE FIXED CHARGES</b>	2,153	17.9	15,947	95.13	5,241	32.3	38,824	169.35
<b>FIXED EXPENSES</b>								
Property Taxes	303	2.5	2,245	13.39	317	2.0	2,349	10.25
Insurance	68	0.6	504	3.01	62	0.4	459	2.00
Equipment Lease and Interest	116	1.0	859	5.12	286	1.8	2,117	9.23
<b>NET INCOME AVAILABLE FOR RENT</b>	\$1,666	13.8 %	\$12,339	\$73.61	\$4,576	28.2 %	\$33,899	\$147.87
Ground Rent	240	2.0	1,776	10.60	313	1.9	2,321	10.12
Rent (Base and Percentage)	2,412	20.0	17,870	106.60	3,163	19.5	23,430	102.20
Other (Financing Exp)	138	1.1	1,021	6.09	18	0.1	136	0.59
Total	3,277	27.2	24,276	144.82	4,160	25.7	30,811	134.40
<b>NET INCOME AFTER RENT</b>	(\$1,124)	(9.3) %	(\$8,329)	(\$49.69)	\$1,082	6.6 %	\$8,013	\$34.95

Table 2B. Historical Financial Statements for 1999 and 1998 (Projections in Thousands, Except Ratios)

	1999				1998			
Number of Rooms:	135				135			
Occupied Rooms:	25,900				25,911			
Days Open:	365				365			
Occupancy:	52.6%	Percentage	Amount per	Amount per	52.6%	Percentage	Amount per	Amount per
Average Rate:	\$163.70	of Revenue	Available	Occupied	\$160.70	of Revenue	Available	Occupied
			Room	Room			Room	Room
<b>REVENUE</b>								
Rooms	\$4,240	30.2 %	\$31,406	\$163.70	\$4,164	30.1 %	\$30,843	\$160.70
Food	5,396	38.5	39,970	208.34	5,334	38.6	39,513	205.87
Beverage	861	6.1	6,375	33.23	840	6.1	6,224	32.43
Conference Services	2,081	14.8	15,415	80.35	1,974	14.3	14,622	76.18
Rooms Cancellation Rev.	1,058	7.5	7,836	40.85	1,119	8.1	8,292	43.20
Other Income	397	2.8	2,938	15.31	389	2.8	2,883	15.02
Total	14,032	100.0	103,940	541.77	13,821	100.0	102,378	533.40
<b>DEPARTMENTAL EXPENSES</b>								
Rooms	1,055	24.9	7,815	40.73	1,053	25.3	7,800	40.64
Food & Beverage	3,898	62.3	28,874	150.50	3,855	62.4	28,556	148.78
Conference Services	696	33.4	5,156	26.87	591	29.9	4,378	22.81
Other Expenses	196	49.4	1,452	7.57	161	41.4	1,193	6.21
Total	5,845	41.7	43,296	225.68	5,660	41.0	41,926	218.44
<b>DEPARTMENTAL INCOME</b>	8,187	58.3	60,644	316.10	8,161	59.0	60,452	314.96
<b>UNDISTRIBUTED OPERATING EXPENSES</b>								
Administrative & General	1,152	8.2	8,535	44.49	1,143	8.3	8,464	44.10
Marketing	1,510	10.8	11,185	58.30	1,225	8.9	9,074	47.28
Property Operations & Maintenance	564	4.0	4,178	21.78	550	4.0	4,074	21.23
Energy	367	2.6	2,719	14.17	371	2.7	2,748	14.32
Total	3,593	25.6	26,616	138.73	3,289	23.8	24,360	126.92
<b>HOUSE PROFIT</b>	4,594	32.7	34,028	177.36	4,872	35.2	36,092	188.04
Management Fee	702	5.0	5,197	27.09	691	5.0	5,119	26.67
<b>INCOME BEFORE FIXED CHARGES</b>	3,892	27.7	28,830	150.27	4,181	30.3	30,973	161.37
<b>FIXED EXPENSES</b>								
Property Taxes	360	2.6	2,668	13.91	178	1.3	1,317	6.86
Insurance	36	0.3	263	1.37	68	0.5	501	2.61
Equipment Lease and Interest	466	3.3	3,450	17.98	463	3.3	3,428	17.86
<b>NET INCOME AVAILABLE FOR RENT</b>	\$3,031	21.6 %	\$22,450	\$117.02	\$3,473	25.1 %	\$25,727	\$134.04
Ground Rent	200	1.4	1,481	7.72	150	1.1	1,111	5.79
Rent (Base and Percentage)	3,001	21.4	22,229	115.86	2,837	20.5	21,011	109.47
Other (Financing Exp)	16	0.1	119	0.62	0	0.0	0	0.00
Total	4,078	29.1	30,210	157.46	3,695	26.7	27,368	142.59
<b>NET INCOME AFTER RENT</b>	(\$186)	(1.4) %	(\$1,380)	(\$7.19)	\$487	3.6 %	\$3,605	\$18.78

Table 2C. Historical Financial Statements for YTD July 2002 and July 2001 (Projections in Thousands, Except Ratios)

	2002 July YTD				2001 July YTD			
Number of Rooms:	135				135			
Occupied Rooms:	11,059				14,245			
Days Open:	212				212			
Occupancy:	38.6%	Percentage	Amount per	Amount per	49.8%	Percentage	Amount per	Amount per
Average Rate:	\$140.44	of Revenue	Available	Occupied	\$164.09	of Revenue	Available	Occupied
			Room	Room			Room	Room
<b>REVENUE</b>								
Rooms	\$1,553	29.8 %	\$11,505	\$140.44	\$2,337	30.9 %	\$17,314	\$164.09
Food	2,169	41.6	16,068	196.15	2,835	37.4	21,003	199.05
Beverage	265	5.1	1,966	24.00	399	5.3	2,959	28.04
Conference Services	683	13.1	5,062	61.79	992	13.1	7,346	69.62
Rooms Cancellation Rev.	416	8.0	3,080	37.60	841	11.1	6,229	59.03
Other Income	130	2.5	966	11.79	169	2.2	1,248	11.83
Total	5,217	100.0	38,647	471.77	7,574	100.0	56,100	531.66
<b>DEPARTMENTAL EXPENSES</b>								
Rooms	628	40.4	4,652	56.79	740	31.7	5,481	51.95
Food & Beverage	1,725	70.9	12,779	155.99	2,296	71.0	17,008	161.18
Conference Services	315	46.1	2,335	28.50	400	40.3	2,961	28.06
Other Expenses	75	57.9	559	6.82	120	71.0	886	8.40
Total	2,744	52.6	20,324	248.10	3,555	46.9	26,336	249.59
<b>DEPARTMENTAL INCOME</b>	2,474	47.4	18,323	223.67	4,018	53.1	29,764	282.07
<b>UNDISTRIBUTED OPERATING EXPENSES</b>								
Administrative & General	769	14.7	5,698	69.56	690	9.1	5,114	48.47
Marketing	708	13.6	5,242	63.99	759	10.0	5,619	53.25
Property Operations & Maintenance	235	4.5	1,740	21.24	301	4.0	2,232	21.15
Energy	221	4.2	1,636	19.98	256	3.4	1,896	17.97
Total	1,933	37.0	14,316	174.76	2,006	26.5	14,861	140.84
<b>HOUSE PROFIT</b>	541	10.4	4,007	48.91	2,012	26.6	14,903	141.24
Management Fee	261	5.0	1,932	23.58	379	5.0	2,805	26.58
<b>INCOME BEFORE FIXED CHARGES</b>	280	5.4	2,075	25.33	1,633	21.6	12,098	114.65
<b>FIXED EXPENSES</b>								
Property Taxes	208	4.0	1,541	18.82	157	2.1	1,165	11.04
Insurance	37	0.7	272	3.32	35	0.5	262	2.48
Equipment Lease and Interest	148	2.8	1,097	13.39	75	1.0	554	5.25
<b>NET INCOME AVAILABLE FOR RENT</b>	(\$113)	(2.2) %	(\$835)	(\$10.19)	\$1,366	18.0 %	\$10,117	\$95.88
Ground Rent	167	3.2	1,240	15.14	157	2.1	1,164	11.04
Rent (Base and Percentage)	1,418	27.2	10,503	128.21	1,384	18.3	10,250	97.14
Other (Financing Exp)	105	2.0	779	9.51	17	0.2	123	1.17
Total	2,083	39.9	15,431	188.38	1,825	24.2	13,519	128.12
<b>NET INCOME AFTER RENT</b>	(\$1,803)	(34.5) %	(\$13,356)	(\$163.05)	(\$192)	(2.6) %	(\$1,421)	(\$13.47)

Table 3A. Projection of Net Income Available for Rent Most Likely Scenario (Projections in Thousands, Except Ratios)

	Historical Operating Results																			
	2001				2002				2003				2004				Stabilized			
Number of Rooms:	135				135				214				214				214			
Occupancy:	46%				38%				35%				45%				50%			
Average Rate:	\$154.99				\$140.27				\$143.07				\$147.36				\$151.78			
Days Open:	365				365				365				365				365			
Occupied Rooms:	22,630	%Gross	PAR	POR	18,725	%Gross	PAR	POR	27,339	%Gross	PAR	POR	35,150	%Gross	PAR	POR	39,055	%Gross	PAR	
REVENUE																				
Rooms	\$3,507	29.1 %	\$25,981	\$154.99	\$2,626	30.2 %	\$19,452	\$140.24	\$3,911	29.6 %	\$18,276	\$143.06	\$5,180	31.5 %	\$24,206	\$147.37	\$5,928	32.2 %	\$27,701	
Food	4,682	38.9	34,678	206.87	3,658	42.1	27,096	195.36	5,204	39.3	24,317	190.35	6,335	38.6	29,604	180.24	7,054	38.3	32,965	
Beverage	678	5.6	5,022	29.96	542	6.2	4,015	28.95	807	6.1	3,769	29.50	982	6.0	4,589	27.94	1,093	5.9	5,109	
Conference Services	1,588	13.2	11,763	70.17	1,095	12.6	8,111	58.48	1,569	11.9	7,330	57.37	1,994	12.1	9,320	56.74	2,257	12.3	10,549	
Spa/Salon	0	0.0	0	0.00	0	0.0	0	0.00	538	4.1	2,516	19.70	585	3.6	2,736	16.65	622	3.4	2,905	
Rooms Cancellation Rev.	1,301	10.8	9,636	57.49	546	6.3	4,044	29.16	913	6.9	4,267	33.40	1,041	6.3	4,865	29.62	1,129	6.1	5,274	
Other Income	279	2.3	2,067	12.33	216	2.5	1,600	11.54	287	2.2	1,342	10.50	312	1.9	1,459	8.88	332	1.8	1,549	
Total Revenues	12,035	100.0	89,147	531.81	8,683	100.0	64,319	463.72	13,229	100.0	61,817	483.89	16,430	100.0	76,777	467.44	18,415	100.0	86,052	
DEPARTMENTAL EXPENSES *																				
Rooms	1,245	35.5	9,222	55.02	1,084	41.3	8,030	57.89	1,369	35.0	6,396	50.07	1,488	28.7	6,954	42.34	1,580	26.7	7,384	
Food & Beverage	3,803	71.0	28,170	168.05	2,834	67.5	20,993	151.35	3,952	65.7	18,466	144.55	4,508	61.6	21,065	128.25	4,889	60.0	22,844	
Conference Services	647	40.7	4,793	28.59	554	50.6	4,104	29.59	592	37.8	2,768	21.67	640	32.1	2,989	18.20	677	30.0	3,165	
Spa/Salon	0	0.0	0	0.00	0	0.0	0	0.00	471	87.5	2,202	17.24	502	85.8	2,347	14.29	528	85.0	2,469	
Other Expenses	194	69.5	1,437	8.57	128	59.3	948	6.84	141	49.2	661	5.17	145	46.3	676	4.11	149	45.0	697	
Total	5,889	48.9	43,622	260.23	4,600	53.0	34,074	245.67	6,525	49.3	30,493	238.69	7,283	44.3	34,031	207.19	7,824	42.5	36,559	
DEPARTMENTAL INCOME																				
	6,146	51.1	45,524	271.58	4,083	47.0	30,244	218.06	6,703	50.7	31,324	245.20	9,148	55.7	42,747	260.25	10,591	57.5	49,493	
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,338	11.1	9,911	59.13	1,358	15.6	10,059	72.53	1,526	11.5	7,133	55.83	1,626	9.9	7,598	46.26	1,710	9.3	7,990	
Marketing	1,009	8.4	7,474	44.59	1,073	12.4	7,948	57.30	1,445	10.9	6,752	52.86	1,539	9.4	7,193	43.79	1,619	8.8	7,563	
Property Operations & Maintenance	619	5.1	4,585	27.35	509	5.9	3,770	27.18	651	4.9	3,043	23.82	737	4.5	3,444	20.97	821	4.5	3,835	
Energy	426	3.5	3,156	18.82	371	4.3	2,748	19.81	550	4.2	2,568	20.10	585	3.6	2,735	16.65	616	3.3	2,876	
Total	3,392	28.2	25,126	149.89	3,311	38.2	24,526	176.83	4,172	31.5	19,497	152.62	4,488	27.4	20,970	127.67	4,765	25.9	22,264	
HOUSE PROFIT																				
	2,754	22.9	20,399	121.69	772	8.8	5,719	41.23	2,531	19.2	11,827	92.58	4,660	28.3	21,777	132.58	5,827	31.6	27,229	
Management Fee	601	5.0	4,451	26.55	217	2.5	1,608	11.59	331	2.5	1,545	12.10	411	2.5	1,919	11.69	460	2.5	2,151	
INCOME BEFORE FIXED CHARGES																				
	2,153	17.9	15,947	95.13	555	6.3	4,111	29.64	2,200	16.7	10,282	80.48	4,249	25.8	19,857	120.90	5,367	29.1	25,077	
FIXED EXPENSES																				
Property Taxes	303	2.5	2,245	13.39	371	4.3	2,748	19.81	462	3.5	2,159	16.90	564	3.4	2,636	16.05	581	3.2	2,715	
Insurance	68	0.6	504	3.01	83	1.0	615	4.43	110	0.8	514	4.03	112	0.7	525	3.19	116	0.6	540	
Equipment Lease and Interest	116	1.0	859	5.12	224	2.6	1,661	11.97	177	1.3	827	6.47	146	0.9	683	4.16	116	0.6	542	
NET INCOME AVAILABLE FOR RENT																				
	1,666	13.8	12,339	73.61	(123)	(1.4)	(913)	(6.58)	1,451	11.0	6,782	53.09	3,427	20.9	16,014	97.50	4,554	24.7	21,281	

Table 3B. Projection of Net Income Available for Rent Under the Best Case Scenario (Projections in Thousands, Except Ratios)

	Historical Operating Results																			
	2001				2002				2003				2004				Stabilized			
Number of Rooms:	135				135				214				214				214			
Occupancy:	46%				40%				40%				50%				55%			
Average Rate:	\$154.99				\$140.27				\$143.07				\$148.79				\$156.23			
Days Open:	365				365				365				365				365			
Occupied Rooms:	22,630	%Gross	PAR	POR	19,710	%Gross	PAR	POR	31,244	%Gross	PAR	POR	39,055	%Gross	PAR	POR	42,961	%Gross	PAR	POR
REVENUE																				
Rooms	\$3,507	29.1 %	\$25,981	\$154.99	\$2,765	30.7 %	\$20,481	\$140.28	\$4,470	30.3 %	\$20,888	\$143.07	\$5,811	32.0 %	\$27,154	\$148.79	\$6,712	33.0 %	\$31,364	\$156.24
Food	4,682	38.9	34,678	206.87	3,750	41.6	27,778	190.26	5,764	39.1	26,934	184.48	6,985	38.4	32,638	178.84	7,734	38.0	36,139	180.02
Beverage	678	5.6	5,022	29.96	580	6.4	4,296	29.43	893	6.1	4,175	28.59	1,083	6.0	5,059	27.72	1,199	5.9	5,601	27.90
Conference Services	1,588	13.2	11,763	70.17	1,120	12.4	8,296	56.82	1,779	12.1	8,315	56.95	2,235	12.3	10,444	57.23	2,509	12.3	11,726	58.41
Spa/Salon	0	0.0	0	0.00	0	0.0	0	0.00	562	3.8	2,625	17.98	615	3.4	2,876	15.76	653	3.2	3,051	15.20
Rooms Cancellation Rev.	1,301	10.8	9,636	57.49	570	6.3	4,222	28.92	976	6.6	4,563	31.25	1,118	6.1	5,222	28.61	1,209	5.9	5,648	28.13
Other Income	279	2.3	2,067	12.33	220	2.4	1,630	11.16	300	2.0	1,400	9.59	328	1.8	1,534	8.40	348	1.7	1,627	8.11
Total Revenues	12,035	100.0	89,147	531.81	9,005	100.0	66,704	456.87	14,744	100.0	68,899	471.91	18,174	100.0	84,927	465.36	20,363	100.0	95,156	474.00
DEPARTMENTAL EXPENSES *																				
Rooms	1,245	35.5	9,222	55.02	1,100	39.8	8,148	55.81	1,428	31.9	6,672	45.70	1,565	26.9	7,311	40.06	1,660	24.7	7,756	38.64
Food & Beverage	3,803	71.0	28,170	168.05	2,840	65.6	21,037	144.09	4,227	63.5	19,753	135.29	4,840	60.0	22,618	123.94	5,236	58.6	24,467	121.88
Conference Services	647	40.7	4,793	28.59	560	50.0	4,148	28.41	616	34.6	2,878	19.71	671	30.0	3,133	17.17	709	28.3	3,314	16.51
Spa/Salon	0	0.0	0	0.00	0	0.0	0	0.00	487	86.6	2,274	15.57	523	85.0	2,445	13.40	550	84.3	2,571	12.81
Other Expenses	194	69.5	1,437	8.57	130	59.1	963	6.60	143	47.7	668	4.58	148	45.0	690	3.78	152	43.8	712	3.55
Total	5,889	48.9	43,622	260.23	4,630	51.4	34,296	234.91	6,900	46.8	32,244	220.85	7,746	42.6	36,197	198.34	8,308	40.8	38,821	193.38
DEPARTMENTAL INCOME	6,146	51.1	45,524	271.58	4,375	48.6	32,407	221.97	7,844	53.2	36,655	251.06	10,428	57.4	48,730	267.01	12,056	59.2	56,336	280.63
UNDISTRIBUTED OPERATING EXPENSES																				
Administrative & General	1,338	11.1	9,911	59.13	1,350	15.0	10,000	68.49	1,574	10.7	7,355	50.38	1,691	9.3	7,904	43.31	1,781	8.7	8,322	41.45
Marketing	1,009	8.4	7,474	44.59	1,070	11.9	7,926	54.29	1,490	10.1	6,963	47.69	1,601	8.8	7,482	41.00	1,686	8.3	7,878	39.24
Property Operations & Maintenance	619	5.1	4,585	27.35	500	5.6	3,704	25.37	672	4.6	3,138	21.50	767	4.2	3,583	19.63	855	4.2	3,994	19.90
Energy	426	3.5	3,156	18.82	360	4.0	2,667	18.26	567	3.8	2,648	18.14	609	3.4	2,845	15.59	641	3.1	2,996	14.92
Total	3,392	28.2	25,126	149.89	3,280	36.5	24,296	166.41	4,302	29.2	20,105	137.71	4,668	25.7	21,815	119.53	4,963	24.3	23,189	115.51
HOUSE PROFIT	2,754	22.9	20,399	121.69	1,095	12.1	8,111	55.56	3,542	24.0	16,550	113.36	5,760	31.7	26,915	147.48	7,093	34.9	33,146	165.11
Management Fee	601	5.0	4,451	26.55	225	2.5	1,668	11.42	369	2.5	1,722	11.80	454	2.5	2,123	11.63	509	2.5	2,379	11.85
INCOME BEFORE FIXED CHARGES	2,153	17.9	15,947	95.13	870	9.6	6,444	44.13	3,173	21.5	14,828	101.56	5,305	29.2	24,792	135.85	6,584	32.4	30,767	153.26
FIXED EXPENSES																				
Property Taxes	303	2.5	2,245	13.39	371	4.1	2,748	18.82	462	3.1	2,159	14.79	564	3.1	2,636	14.44	581	2.9	2,715	13.52
Insurance	68	0.6	504	3.01	83	0.9	615	4.21	111	0.8	519	3.56	114	0.6	535	2.93	118	0.6	551	2.74
Equipment Lease and Interest	116	1.0	859	5.12	224	2.5	1,661	11.37	177	1.2	827	5.66	146	0.8	683	3.74	116	0.6	542	2.70
NET INCOME AVAILABLE FOR RENT	1,666	13.8	12,339	73.61	192	2.1	1,420	9.72	2,423	16.4	11,323	77.55	4,481	24.7	20,939	114.73	5,769	28.3	26,960	134.30



Table 3C. Projection of Net Income Available for Rent Under the Worst Case Scenario (Projections in Thousands, Except Ratios)

	Historical Operating Results												Stabilized			
	2001				2002				2003				2004			
Number of Rooms:	135				135				214				214			
Occupancy:	46%				36%				32%				38%			
Average Rate:	\$154.99				\$140.27				\$143.07				\$145.93			
Days Open:	365				365				365				365			
Occupied Rooms:	22,630	%Gross	PAR	POR	17,739	%Gross	PAR	POR	24,995	%Gross	PAR	POR	29,682	%Gross	PAR	POR
REVENUE																
Rooms	\$3,507	29.1 %	\$25,981	\$154.99	\$2,488	29.7 %	\$18,430	\$140.26	\$3,576	28.7 %	\$16,710	\$143.07	\$4,332	29.8 %	\$20,243	\$145.95
Food	4,682	38.9	34,678	206.87	3,600	42.9	26,667	202.94	4,950	39.7	23,132	198.05	5,727	39.3	26,763	192.96
Beverage	678	5.6	5,022	29.96	520	6.2	3,852	29.31	767	6.2	3,585	30.70	888	6.1	4,148	29.91
Conference Services	1,588	13.2	11,763	70.17	1,050	12.5	7,778	59.19	1,467	11.8	6,855	58.69	1,752	12.0	8,188	59.04
Spa/Salon	0	0.0	0	0.00	0	0.0	0	0.00	533	4.3	2,491	21.32	571	3.9	2,669	19.24
Rooms Cancellation Rev.	1,301	10.8	9,636	57.49	525	6.3	3,889	29.60	890	7.1	4,157	35.59	983	6.8	4,595	33.13
Other Income	279	2.3	2,067	12.33	200	2.4	1,481	11.27	284	2.3	1,328	11.37	305	2.1	1,423	10.26
Total Revenues	12,035	100.0	89,147	531.81	8,383	100.0	62,096	472.57	12,467	100.0	58,259	498.79	14,559	100.0	68,031	490.49
DEPARTMENTAL EXPENSES *																
Rooms	1,245	35.5	9,222	55.02	1,060	42.6	7,852	59.76	1,355	37.9	6,331	54.21	1,452	33.5	6,785	48.92
Food & Beverage	3,803	71.0	28,170	168.05	2,830	68.7	20,963	159.54	3,849	67.3	17,987	154.00	4,257	64.3	19,890	143.41
Conference Services	647	40.7	4,793	28.59	540	51.4	4,000	30.44	588	40.1	2,746	23.51	627	35.8	2,930	21.13
Spa/Salon	0	0.0	0	0.00	0	0.0	0	0.00	470	88.1	2,194	18.78	497	87.0	2,321	16.74
Other Expenses	194	69.5	1,437	8.57	120	60.0	889	6.76	143	50.2	667	5.71	147	48.3	688	4.96
Total	5,889	48.9	43,622	260.23	4,550	54.3	33,704	256.50	6,404	51.4	29,925	256.21	6,979	47.9	32,614	235.14
DEPARTMENTAL INCOME	6,146	51.1	45,524	271.58	3,833	45.7	28,393	216.08	6,063	48.6	28,333	242.58	7,579	52.1	35,416	255.34
UNDISTRIBUTED OPERATING EXPENSES																
Administrative & General	1,338	11.1	9,911	59.13	1,360	16.2	10,074	76.67	1,521	12.2	7,106	60.84	1,607	11.0	7,507	54.13
Marketing	1,009	8.4	7,474	44.59	1,075	12.8	7,963	60.60	1,440	11.5	6,727	57.59	1,521	10.4	7,107	51.24
Property Operations & Maintenance	619	5.1	4,585	27.35	510	6.1	3,778	28.75	649	5.2	3,032	25.96	728	5.0	3,403	24.54
Energy	426	3.5	3,156	18.82	380	4.5	2,815	21.42	547	4.4	2,558	21.90	578	4.0	2,703	19.49
Total	3,392	28.2	25,126	149.89	3,325	39.6	24,630	187.44	4,156	33.3	19,422	166.28	4,434	30.4	20,720	149.39
HOUSE PROFIT	2,754	22.9	20,399	121.69	508	6.1	3,763	28.64	1,907	15.3	8,911	76.30	3,145	21.7	14,696	105.96
Management Fee	601	5.0	4,451	26.55	210	2.5	1,552	11.81	312	2.5	1,456	12.47	364	2.5	1,701	12.26
INCOME BEFORE FIXED CHARGES	2,153	17.9	15,947	95.13	298	3.6	2,211	16.82	1,595	12.8	7,455	63.83	2,781	19.2	12,996	93.70
FIXED EXPENSES																
Property Taxes	303	2.5	2,245	13.39	371	4.4	2,748	20.91	462	3.7	2,159	18.48	564	3.9	2,636	19.00
Insurance	68	0.6	504	3.01	85	1.0	630	4.79	111	0.9	519	4.45	114	0.8	535	3.86
Equipment Lease and Interest	116	1.0	859	5.12	224	2.7	1,661	12.64	177	1.4	827	7.08	146	1.0	683	4.92
Income Before Rent and Finance Char	1,666	13.8	12,339	73.61	(382)	(4.6)	(2,828)	(21.52)	845	6.8	3,950	33.82	1,956	13.4	9,142	65.92

Table 4A. Projection of Application of Funds Under the Most Likely Scenario (Projections in Thousands)

	Actual Jan-July	Forecast Aug-Dec	Total 2002	2003	2004	2005
Net Income Available for Rent	(\$113)	(\$11)	(\$123)	\$1,451	\$3,427	\$4,554
Add: Cash Inflow						
Opening Balance	1,059	341	1,059	-	-	-
Second Portion of Comerica Bank Loan	1,387	-	1,387	-	-	-
Total Available Cash	\$2,333	\$330	\$2,323	\$1,451	\$3,427	\$4,554
<b>Less: Required Payments</b>						
Phase I Base Rent	630	450	1,080	1,080	1,080	1,080
Phase II & III Base Rent	769	267	1,036	1,224	2,438	3,190
Phase I Notes Payable to City \$4m - Principal	80	58	138	138	138	138
Prior-year property tax	-	196	196	-	-	-
\$2-Million Comerica Bank Loan	57	165	222	475	451	428
Interest on \$1.2 Million Loan from DevCon	47	40	87	87	-	-
Phase III FFE Purchase	230	630	860	-	-	-
Additional Supplies	10	370	380	-	-	-
Working Capital	(68)	128	60	60	60	60
Total Requirements	1,755	2,304	4,059	3,064	4,166	4,896
<b>Surplus/(Shortfall)</b>	<b>\$578</b>	<b>(\$1,974)</b>	<b>(\$1,737)</b>	<b>(\$1,613)</b>	<b>(\$739)</b>	<b>(\$341)</b>
<b>Less: Discretionary Payments</b>						
Interest on Deferred % Rent (99-01, deferred)*	19	12	31	31	31	31
Grounds Rent	175	125	300	300	329	368
Second Half Management Fee 2.5%	44	-	44	-	-	-
Preferred Return on Phase II** 12%	-	-	-	-	-	-
Percentage Rent	-	-	-	-	-	-
Total Requirements	238	137	375	331	360	400
<b>Surplus/(Shortfall)</b>	<b>\$341</b>	<b>(\$2,112)</b>	<b>(\$2,112)</b>	<b>(\$1,944)</b>	<b>(\$1,099)</b>	<b>(\$741)</b>
<b>Cumulative Shortfall</b>	<b>\$341</b>	<b>(\$2,112)</b>	<b>(\$2,112)</b>	<b>(\$4,056)</b>	<b>(\$5,155)</b>	<b>(\$5,896)</b>

\* Payable in 2014-2017 in equal instalments, along with unpaid percentage rent (\$570,000)

\*\* Cumulative, non-compounded preferred returns. Stopped in Aug 2001. Accumulated unpaid returns are not shown in forecast.

Table 4B. Projection of Application of Funds Under the Best Case Scenario (Projections in Thousands)

	Actual Jan-July	Forecast Aug-Dec	Total 2002	2003	2004	2005
Net Income Available for Rent	(\$113)	\$304	\$192	\$2,423	\$4,481	\$5,769
Add: Cash Inflow						
Opening Balance	1,059	340	1,059	-	-	-
Second Portion of Comerica Bank Loan	1,387	-	1,387	-	-	-
Total Available Cash	\$2,333	\$645	\$2,638	\$2,423	\$4,481	\$5,769
<b>Less: Required Payments</b>						
Phase I Base Rent	630	450	1,080	1,080	1,080	1,080
Phase II & III Base Rent	769	267	1,036	1,224	2,438	3,190
Phase I Notes Payable to City \$4m - Principal	80	58	138	138	138	138
Prior-year property tax	-	196	196	-	-	-
\$2-Million Comerica Bank Loan	57	165	222	475	451	428
Interest on \$1.2 Million Loan from DevCon	47	40	87	87	-	-
Phase III FFE Purchase	230	630	860	-	-	-
Additional Supplies	10	370	380	-	-	-
Working Capital	(68)	128	60	60	60	60
Total Requirements	1,755	2,304	4,059	3,064	4,166	4,896
<b>Surplus/(Shortfall)</b>	<b>\$578</b>	<b>(\$1,660)</b>	<b>(\$1,422)</b>	<b>(\$641)</b>	<b>\$314</b>	<b>\$874</b>
<b>Less: Discretionary Payments</b>						
Interest on Deferred % Rent (99-01, deferred)*	19	12	31	31	31	31
Grounds Rent	175	125	300	300	363	407
Second Half Management Fee 2.5%	44	-	44	-	-	-
Preferred Return on Phase II** 12%	-	-	-	-	-	-
Percentage Rent	-	-	-	-	-	-
Total Requirements	238	137	375	331	395	438
<b>Surplus/(Shortfall)</b>	<b>\$340</b>	<b>(\$1,797)</b>	<b>(\$1,797)</b>	<b>(\$972)</b>	<b>(\$80)</b>	<b>\$435</b>
<b>Cumulative Shortfall</b>	<b>\$340</b>	<b>(\$1,797)</b>	<b>(\$1,797)</b>	<b>(\$2,769)</b>	<b>(\$2,849)</b>	<b>(\$2,414)</b>

\* Payable in 2014-2017 in equal instalments, along with unpaid percentage rent (\$570,000)

\*\* Cumulative, non-compounded preferred returns. Stopped in Aug 2001. Accumulated unpaid returns are not shown in forecast.

Table 4C. Projection of Application of Funds Under the Worst Case Scenario (Projections in Thousands)

	Actual Jan-July	Forecast Aug-Dec	Total 2002	2003	2004	2005
Net Income Available for Rent	(\$113)	(\$269)	(\$382)	\$845	\$1,956	\$3,460
Add: Cash Inflow						
Opening Balance	1,059	340	1,059	-	-	-
Cash Infusion	-	-	-	-	-	-
Total Available Cash	\$2,333	\$71	\$2,064	\$845	\$1,956	\$3,460
<b>Less: Required Payments</b>						
Phase I Base Rent	630	450	1,080	1,080	1,080	1,080
Phase II & III Base Rent	769	267	1,036	1,224	2,438	3,190
Phase I Notes Payable to City \$4m - Principal	80	58	138	138	138	138
Prior-year property tax	-	196	196	-	-	-
\$2-Million Comerica Bank Loan	57	165	222	475	451	428
Interest on \$1.2 Million Loan from DevCon	47	40	87	87	-	-
Phase III FFE Purchase	230	630	860	-	-	-
Additional Supplies	10	370	380	-	-	-
Working Capital	(68)	128	60	60	60	60
Total Requirements	1,755	2,304	4,059	3,064	4,166	4,896
<b>Surplus/(Shortfall)</b>	<b>\$578</b>	<b>(\$2,233)</b>	<b>(\$1,995)</b>	<b>(\$2,219)</b>	<b>(\$2,210)</b>	<b>(\$1,436)</b>
<b>Less: Discretionary Payments</b>						
Interest on Deferred % Rent (99-01, deferred)*	19	12	31	31	31	31
Grounds Rent	175	125	300	300	300	342
Second Half Management Fee 2.5%	44	(44)	-	-	-	-
Preferred Return on Phase II** 12%	-	-	-	-	-	-
Percentage Rent	-	-	-	-	-	-
Total Requirements	238	93	331	331	331	373
<b>Surplus/(Shortfall)</b>	<b>\$340</b>	<b>(\$2,326)</b>	<b>(\$2,326)</b>	<b>(\$2,550)</b>	<b>(\$2,541)</b>	<b>(\$1,809)</b>
<b>Cumulative Shortfall</b>	<b>\$340</b>	<b>(\$2,326)</b>	<b>(\$2,326)</b>	<b>(\$4,876)</b>	<b>(\$7,418)</b>	<b>(\$9,227)</b>

\* Payable in 2014-2017 in equal instalments, along with unpaid percentage rent (\$570,000)

\*\* Cumulative, non-compounded preferred returns. Stopped in Aug 2001. Accumulated unpaid returns are not shown in forecast.